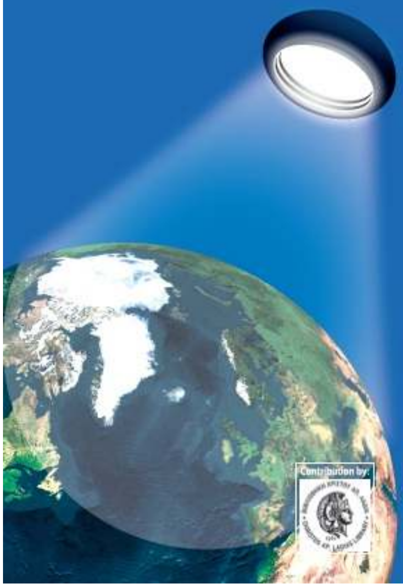
Regional Science Inquiry



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THE BRAZILIAN ECONOMY POSITION ON THE INVESTMENT DEVELOPMENT PATH (IDP)

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Abstract
The hypothesis that inward and outward FDI positions of a country are related to the level and structure of economic development in relation to other economies, was first showed by Dunning (1979. The IDP suggests that countries tend to pass through five main development stages and that these phases can be classified according to the propensity of countries to host and/or invest abroad. This article attempts to measure the position of Brazil in the IDP. The investment by Brazilian firms abroad, in relation to emerging countries, was the first until 90s. However, Brazil's outward FDI increased substantially from 2000. In 2006 the Outward FDI exceeded inward FDI for the first time in the history of the country. Nowadays, the Brazilian economy seems to be in phase 2 and give signs of entry to stage 3, and some signs of evolution to phases 4 and 5. This paper intends to measure de Brazilian economy position on IDP especially between emerging countries context and the importance of a new stage of Brazilian economy: the systematic internationalization of domestic firms. This paper has the following structure: an evolution of FDI in recent years; after that we explain the phases of Investment Developmet Path Theory and measure de Brazilian economy position on IDP. Finally, the final considerations are related.

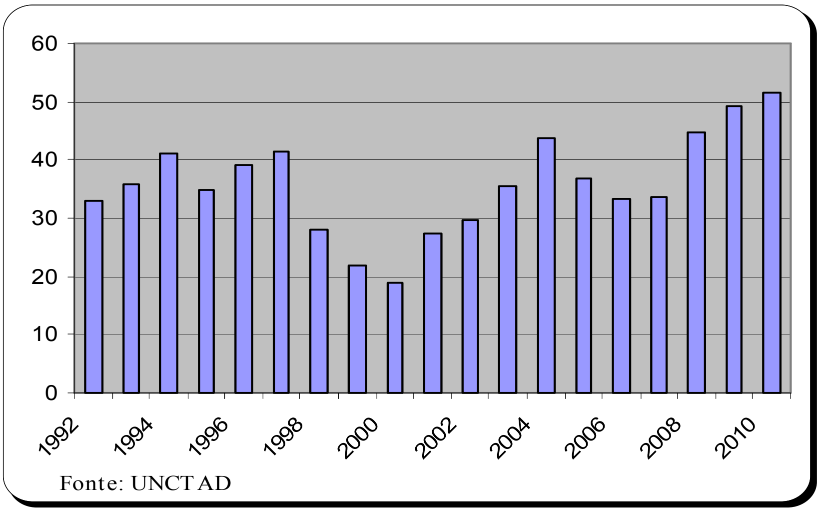
Keywords: Investment Development Path – Brazil – Emerging countries – FDI Inward – FDI Outward – Phases – Position – Flows - Stocks

JEL, classification R10, R40, R30

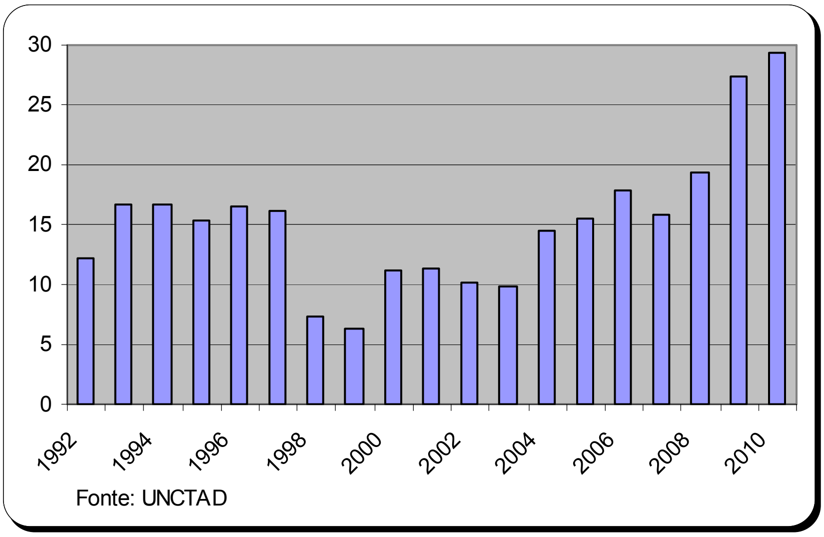
1. THE EVOLUTION OF FOREIGN DIRECT INVESTMENT (FDI) IN RECENT YEARS

According to the World Development Report 2011 [1], in the first time in history emerging markets have attracted more foreign investment, ie, 53% of the world total in 2010, as shown in Figure 1. At the same time, these economies have become major investors, increasing their share of the global volume of FDI inflows by 29% in 2010 compared to 15% in 2007, the year before the financial crisis (Figure 2) . Overall, investment in emerging markets abroad increased from 198 billion euros in 2009 to 243 billion euros in 2010, an increase of about 23%. Among developed economies, FDI outflows also increased but at a slower pace than emerging countriees - 10% - amounting to 744 billion euros. FDI inflows increased in all major groups of economies, but at different rates. The flow of emerging countries has rebounded, reflecting the strength of their economies, the growth of transnational companies and their increased propensity to compete in new markets. Cechella [2], for example, show the economic policies implemented in Brazil after the Real Plan had a positive effect, including for the react to the global financial crisis since 2008, and continue their path of internationalization. Thus, in 2010, emerging countries as a whole accounted for about 18% of the stock of FDI, versus 11% in the 2000s.

Graph 1 – Emerging countries FDI inflows, 1992-2010
Percentage of world total



Graph 2 – Emerging Countries FDI outflows
Percentage of world total



Globally, the flow of FDI accounted for countries reached 954 billion euros in 2010, representing an increase of 13% over the previous year. Brazil was the most notable of this group of investors, as they left a negative flow of FDI of 10.0 billion euros in 2009 to an inflow of U.S. $ 11.5 billion in 2010. The country also went from 15th in 2009 to 5th in the ranking of countries that received foreign direct investment. The United States tops the ranking of the UNCTAD, with inflows of 175 million euros, representing an increase of 49%. China and Hong Kong are respectively the second and third with FDI of 81.5 billion euros and 53 billion respectively. Fourth, was Belgium, with 48 billion euros in investments. In 2010, FDI grew by 5% over the previous year, although still 37% below the 2007 peak.

Latin America and the Caribbean was the region with the highest growth in FDI flows in 2010, driven primarily by increased merger and acquisition of the participation of transnational corporations. FDI inflows in Latin America amounted to 166 million euros, a sum far greater than that received by China (U.S.$95 billion). Besides Brazil, Chile, Colombia and Mexico have also increased outward investment flows and mergers and acquisitions activities involving transnational corporations last year. The significant increase is due to increased investment by multinationals in Brazil and Mexico, the

main investors in the region. In Brazil, the outflow was 11.5 billion euros due to investments in foreign companies such as CVRD, Braskem and Petrobras, Camargo Correa, Gerdau and Votorantim.
Another trend is to increase South-South relations (Aykut, [3]), responsible for the growth of FDI as shown in Figure 2. Among the areas where developing countries are the largest source of outward FDI were from the south, southeast and east Asia, which handled 175 billion euros, mainly on behalf of companies in Hong Kong, China mainland, Singapore and South Korea. According to UNCTAD, "An important feature of the growing role of developing economies and transition is that investors (70%) is directed to other developing countries and transition economies, while the ratio developed countries is only 50%." And the South-South foreign direct investment in particular from Asia and Latin America, was one of the main factors behind the recovery of FDI in 2010"said the report.
The BRICs (Brazil, Russia, India and China), according to UNCTAD (2011), the first three have recently shown a preference for acquiring assets in developed countries, particularly in the United States and Western Europe. The exception is China: most of the country's FDI has been directed to other developing countries, without losing sight of investments in developed countries. Brazil and Russia have shown a preference for the natural resources sector, China and India have acquired foreign assets mainly in the service sector, with indian companies to invest in business knowledge and technology-intensive, such as pharmaceuticals and automobiles. However, the total volume of FDI in terms of stocks and flows of the BRIC countries remains modest: the "market share" in the BRIC FDI stock was 3% in 2010, and 5 % FDI inflows.
Brazil was the largest emerging countries investor until 1990s, losing this position from the period of acceleration of world FDI. However, it has a stronger external position of Latin America, being the source of about 40% of the stock of outward FDI in the region. Brazilian FDI flows were directed mainly to offshore financial centers, two thirds of them for the Cayman Islands, Bahamas and the British Virgin Islands. There is also a considerable stock of brazilian FDI in other countries of Latin America such as Argentina and Uruguay, and in developed countries such as Denmark, Luxembourg, Spain, Portugal and the United States. In addition to offshore locations, the areas with higher brazilian investment are those of trade, mining and construction, which expanded at rates above the world average in most of the 2000s.

2. THE INVESTMENT DEVELOPMENT PATH THEORY

The IDP suggests that countries tend to pass through five main development stages and that these phases can be classified according to the propensity of countries to host and/or invest abroad.
The investment development path framework (IDP), first put forward by John Dunning [4]. Since then, the concept of the Investment Development Path (IDP) has been revised and expanded (Dunning [5, 6, 7 and 8]; Narula [9 and 10]; Dunning and Narula, [11]. The IDP suggests that emerging countries multinationals (MNEs) tend to initially invest in resource- and market-seeking activities in neighbouring or other developing countries, and then expand their presence worldwide (Aykut & Ratha [12]). The received literature suggests that there have been two phases of outward FDI from developing countries (Dunning et al. [13 and 14]; UNCTAD [15 and 16]): from the 1960s until early 1980s, and thereafter. The first-wave firms were driven mainly by market- and efficiency-seeking factors and investments were mainly directed towards other developing countries, most often neighbouring countries. In the second phase, driven by a combination of pull and push factors, strategic-asset seeking also became a motive and investments into developed countries and developing countries outside the investor's own region became more important. The first phase of FDI originated predominantly from Latin America where new MNEs emerged from Argentina, Mexico and Chile, followed by Brazilian, Colombian and Venezuelan competitors (Andreff, [17]). During a period which otherwise emphasized industrialization strategies based on import substitution, Latin American MNEs internationalised on the basis of products that had met the needs of their growing domestic markets and outward FDI went primarily to neighbouring developing countries with similar demand structures. The second phase, from the 1980s, was dominated by Asian MNEs, spreading from Republic of Korea, Taiwan, Hong Kong, Singapore and thereafter Malaysia, Thailand, China, India and the Philippines, and accompanied Asian countries' export oriented industrialization strategies. Outward FDI from Latin America was less prominent during this period. Asian TNCs expanded

mostly in the fast growing foreign markets but they also outward invested to access cheap labour in developing countries that were less developed than their home countries. The IDP phases are:

Phase 1

During the first stage of the IDP path, the Location specific advantages of a country are presumed to be insufficient to attract inward direct investment, with the exception of those arising from its possession of natural assets. Its deficiency in location-bound created assets may reflect limited domestic markets - demand levels are minimal because of the low per capita income - inappropriate economic systems or government policies; inadequate infrastructure such as transportation and communication facilities; and perhaps most important of all, a poorly educated, trained or motivated labour force. At this stage of the IDP, there is likely to be very little outward direct investment. Ceteris paribus, foreign firms will prefer to export to and import from this market, or conclude co-operative non-equity arrangements with indigenous firms. This is because the Ownership specific advantages of domestic firms are few and far between, as there is little or no indigenous technology accumulation and hence few created assets. Those that exist will be in labour-intensive manufacturing and the primary product sector (such as mining and agriculture), and may be government influenced through infant industry protection such as import controls.

Government intervention during Phase 1 will normally take two forms. First it may be the main means of providing basic infrastructure, and the upgrading of human capital via education and training. Governments will attempt to reduce some of the endemic market failure holding back development. Second, they engage in a variety of economic and social policies, which, for good or bad, will affect the structure of markets. Import protection, domestic content policies and export subsidies are examples of such intervention at this stage of development. At this stage, however, there is likely to be only limited government involvement in the upgrading of the country's created assets, for example innovatory capacity.

Phase *2*

In Phase 2, inward direct investment starts to rise, while outward investment remains low or negligible. Domestic markets may have grown either in size or in purchasing power, making some local production by foreign firms a viable proposition. Initially this is likely to take the form of import-substituting manufacturing investment—based upon their possession of intangible assets, for example technology, trademarks, managerial skills, etc.

Frequently such inbound FDI is stimulated by host governments imposing tariff and non-tariff barriers. In the case of export-oriented industries (at this stage of development, such inward direct investment will still largely be in natural resource intensive sectors with some forward vertical integration into labour-intensive low technology and light manufactures) the extent to which the host country is able to offer the necessary infrastructure (transportation, communications facilities and supplies of skilled and unskilled labour) will be a decisive factor. In short, a country must possess some desirable location characteristics to attract inward direct investment, although the extent to which these can be effectively exploited will depend on that country's development strategy and the extent to which it prefers to develop the technological capabilities of its domestic firms.

The ownership advantages of domestic firms will have increased from the previous phase, wherever national government policies have generated a virtuous circle of created asset accumulation. These ownership advantages will exist owing to the development of support industries clustered around primary industries, and production will move towards semi-skilled and moderately knowledge-intensive consumer goods. Outward direct investment emerges at this stage.

This may be either of a market-seeking or trade-related type in adjacent territories, or of a strategic asset-seeking type in developed countries. The former will be characteristically undertaken in countries that are either further back in their IDP than the home country, or, when the acquisition of created assets is the prime motive, these are likely to be directed towards countries further along the path.

The extent to which outward direct investment is undertaken will be influenced by the home country government-induced ‘push’ factors such as subsidies for exports, and technology development or acquisition (which influence the internalization advantages of domestic firms), as well as the changing (non- government-induced) the location advantages such as relative production costs.

However, the rate of outward direct investment growth is likely to be insufficient to offset the rising rate of growth of inward direct investment. As a consequence, during the second stage of development, countries will increase their net inward investment (their NOI position will worsen), although towards the latter part of the second stage, the growth rates of outward direct investment and inward direct investment will begin to converge.

Phase 3

Countries in Phase 3 are marked by a gradual decrease in the rate of growth of inward direct investment, and an increase in the rate of growth of outward direct investment that results in increasing of NOI. The technological capabilities of the country are increasingly geared towards the production of standardized goods. With rising incomes, consumers begin to demand higher-quality goods, fuelled in part by the growing competitiveness among the supplying firms. The comparative advantage of labour-intensive activities will deteriorate, domestic wages will rise, and outward direct investment will be directed more to countries at lower phases in their IDP.

The original ownership advantages of foreign firms also begin to be eroded, as domestic firms acquire their own competitive advantages and compete with them in the same sectors. The initial ownership advantages of foreign firms will also begin to change, as the domestic firms compete directly with them in these sectors. This is supported by the growing stock of created assets of the host country due to increased expenditure on education, vocational training and innovatory activities.

These will be replaced by new technological, managerial or marketing innovations in order to compete with domestic firms. These ownership advantages are likely to be based on the possession of intangible knowledge, and the public good nature of such assets will mean that foreign firms will increasingly prefer to exploit them through cross-border hierarchies. Growing of location advantages such as an enlarged market and improved domestic innovatory capacity will make for economies of scale, and, with rising wage costs, will encourage more technology-intensive manufacturing as well as higher value added locally. The motives of inward direct investment will shift towards efficiency-seeking production and away from import-substituting production.

In industries where domestic firms have a competitive advantage, there may be some inward direct investment directed towards strategic asset-acquiring activities.

Domestic firms ownership advantages will have changed too, and will be based less on government-induced action. Partly owing to the increase in their multinationality, the character of the ownership advantages of foreign firms will increasingly reflect their ability to manage and co-ordinate geographically dispersed assets. At this stage of development, their ownership advantages based on possession of proprietary assets will be similar to those of firms from developed countries in all except the most technology-intensive sectors. There will be increased outward direct investment directed to Phase 1 and 2 countries, both as market-seeking investment and as export platforms, as prior domestic location advantages in resource-intensive production are eroded.

Outward direct investment will also occur in Phase 3 and 4 countries, partly as a market-seeking strategy, but also to acquire strategic assets to protect or upgrade the O advantages of the investing firms (Dunning, van Hoesel and Narula [13 and 14]).

The role of government-induced ownership advantages is likely to be less significant in Phase 3, as those of FDI-induced ownership advantages take on more importance. Although the significance of location-bound created assets will rise relative to those of natural assets, government policies will continue to be directed to reducing structural market imperfections in resource-intensive industries. Thus governments may attempt to attract inward direct investment in those sectors in which the comparative ownership advantages of enterprises are the weakest, but the comparative advantages of location are the strongest. At the same time, they might seek to encourage their country’s own enterprises to invest abroad in those sectors in which the ownership advantages are the strongest, and the comparative location advantages are the weakest. Structural adjustment will be required if the country is to move to the next stage of development, with declining industries (such as labour-intensive ones) undertaking direct investment

Phase 4

Step 4 is reached when the stock of outward FDI of the country exceeds or equals the inward FDI, the growth rate of the first is still higher than the second. At this stage, most domestic companies are entitled to compete with foreign companies abroad as well as in its own market. The production processes and the goods are manufactured in the state of the art, with the cost of capital less than the cost of labor. Translated, the location advantages will be based almost entirely on the creation of assets. The inward FDI in Phase 4 is increasingly directed to sequential and the rationalization of investment in assets in companies of other countries that are in this phase. The competitive advantages of companies tend to be more related to the operationalization, obtained from its multinationality. Countries that are in earlier stages of the IDP also invest, with objectives such as market-seeking or asset seeking. Outward FDI is substantial, since the companies, to seek maintain competitive advantage, moving some of their operations to countries that are in earlier stages of the IDP, as well as in response to trade barriers. As the ownership advantages of the countries in this stage are very similar, producing intra-industry become the most important, and usually result in the growth of intra-industry. Both FDI and intra-industry tends to be increasingly conducted within the MNEs. The role of government is also likely to change in Phase 4. While continuing its role as regulator and supervision, to decrease market imperfections and maintain competition, it will give more attention to the structural adjustment of the economy and reduce the transaction costs of economic activity. The intervention is replaced by measures designed to help with the modernization of internal resources and capabilities, and to inhibit the market distortions and behavior of private economic agents.

Stage 5

In stage 5, the position of a country NOI first decreases and then oscillates around zero, reflecting relatively similar stock of FDI internal and external. At the same time, both inward FDI as the outward bound to increase. This is the stage in which the industrialized nations are catching up, and has two main features. First, as initiated in the previous phase, the growing propensity for cross-border transactions are not market driven, but internalized within the MNEs. Second, as countries converge in the structure of their locations, their investment positions are likely to become more balanced (Dunning and Lundan, [8]). These phenomena represent a natural progression and prospects for the internationalization of enterprises and economies. Thus, the nature and scope of economic activity gradually changes from countries that do business through products and services very different for cooperative trade between countries that produce similar products.

The phase 5 of the IDP represents a situation in which no country has an absolute hegemony of the assets created. In addition, the interest of multinational companies will be less dependent on their country of origin, but on its ability to buy goods and the ability of companies to organize their competitive advantages to exploit the profits of multinational joint governance. Another characteristic of Stage 5 is that, as the company has become globalized, nationality blurs it. While MNEs are strongly inclined to pursue a national policy of integration, no longer operate under the perspective of their country of origin, and trade and invest where it is more profitable. Increasingly, MNEs, through their arbitration functions, behave like mini-markets. In summary, the stage 5 is manifest by a gradual convergence of the structures of industrial activity between countries and a change in the character of international transactions. The activities of MNEs in particular will be targeted for FDI with an emphasis on cross-border cooperation, alliances, mergers and acquisitions, as well as the management control of multinational companies become will increasingly pluralistic. The success of countries in the accumulation of technology, as well as to induce a continued economic growth will increasingly depend on the ability of their companies (local and foreign) to coordinate their resources and capabilities in a regional and global level and form a institutional framework that fosters entrepreneurship, together with measures to protect competition.

3. IDP RESULTS FOR BRAZILIAN ECONOMY ON EMERGING COUNTRIES CONTEXT

UNCTAD [18] tested the IDP to correlate the net investment abroad (NOI) per-capita and GDP per capita for various countries, reaching important results about the theory of IDP. However, some contradictory results were obtained and need to new explanations for the IDP. Singapore, for example, has a very negative NOI per capita for their level of development. Secondly, many countries as Brazil (for its size and potential market), China, India, Mexico, South Africa and Turkey, which are investing significant amounts of FDI overseas, would be in stages 1 and 2 of the IDP, and have started the IDE outward IDE sooner than might be expected on the basis of the IDP (the net position of foreign investment disturbs a little because these countries also receive large amounts of internal IDE). Thus, the per-capita GDP may be a limited source to measure the IDP, and other indicators can be used to understand why countries with relatively low amounts invested abroad. However, it is an indication that many companies are conducting IDE sooner than had been able to wait in line with this theory. According to UNCTAD [18], there is evidence to suggest that MNEs from emerging economies are investing increasingly in an earlier stage in relation to the development of their country. One likely reason is the impact of globalization on countries and companies, especially by increased competition and opportunities. India, for example, is a poor country, but has a significant number of companies with a strong industrial base, indicating that Indian MNEs have some relevant ownership assets.

3.1 The case of Brazilian Economy

Despite its relative novelty, the internationalization of Brazilian companies has achieved a wide geographic spread. Brazilian FDI can today be found in 78 countries. Putting aside investment in tax havens, which accounts for 65% of the total, by 2010, half the stock of of FDI from Brazil had gone to Denmark, the United States and Spain, with developed economies together accounting for 75%. Among emerging markets, Argentina leads, followed by Uruguay. When it comes to sectoral distribution (and including tax havens), Brazilian central bank data indicate that 54% of FDI stock from Brazil had gone into financial services by 2010. Given the distortion introduced by the inclusion of flows to tax havens, however, it is difficult to mensurate a realistic picture of the final destination of these flows.

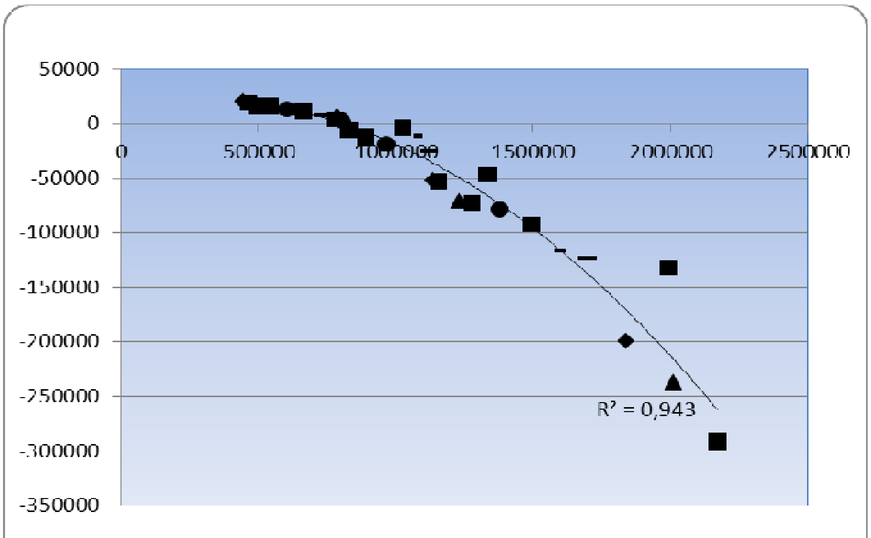
The internationalization of Brazilian companies is dominated by the private sector, although state-owned enterprises also play a role. Petrobras, for example, has expanded its overseas activities to 15 countries in three continents. In Latin America, for example, the company has pursued a strategy of regional integration in natural gas.

Why are more and more Brazilian companies going abroad? The most frequently cited reason is that they are following clients into international markets. But there are many other reasons as well, such as defending their competitive position, monitoring the competition in international markets, meeting international demand and reducing their dependence on a single (domestic) market. Many Brazilian companies are also interested in natural resources. Yet others are looking for lower costs, better infrastructure and more attractive fiscal incentives. Broadly speaking, Brazilian outward investors are in search of three things: markets, natural resources and investment climates superior to the one they find at home.

In keeping with the usual pattern of early internationalization, one of the main ways in which FDI from Brazil begins is by setting up offices for overseas sales. This is especially common in the consumer goods industry and the services sector. However, the overseas manufacture of goods and provision of services account for a substantial share of FDI as well. Brazilian overseas units also tend to expand into new functions, such as manufacturing goods and providing services, even if not initially set up to do so. It is interesting too to note how other, more sophisticated, functions such as logistics and R&D, already figure among their overseas activities.

The investment by Brazilian companies abroad, in relation to the emerging countries, are pioneers until the 90th, and they started to invest abroad more substantially from the 2000s, in terms of volume, reaching a peak in 2006, during which exceeded inflows of FDI in the country, a sign that may indicate that the country has some characteristics of phase 3. For purposes of calculating the IDP, in accordance with the methodology of UNCTAD [18], the variables for calculating the IDP are the stocks of inward and outward FDI, and GDP per capita. The graph 1 show, by the traditional measure defined by Dunning, the trajectory of the IDP to Brazil.

Graph 3 – Brazilian economy position on IDP, 1980-2010

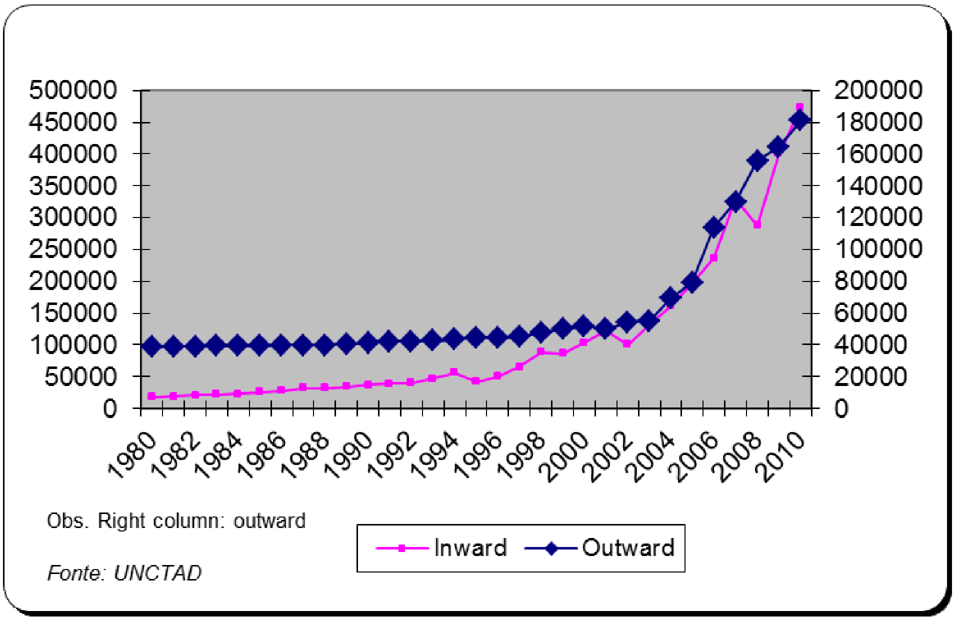


Fonte: UNCTAD

3.2 Results

Our Brazil analysis seeks to explain why we think this country is more advanced than the results showed by UNCTAD[18]. We assume that the stages of the IDP are reference points, and one country can have elements of other phases. It is possible that the input variables in the model and the statistics be limited to detect the real stage where is the country (Dunning and Lundan, 2008). Therefore, it must be extrapolated through other methods, such as analysis of the country's economic development and other indicators statistics. In Brazil, for its own economic potential and attractiveness of FDI, it is difficult to say that at some point inward FDI could decrease by a competitiveness improve of domestic firms. The trend of recent years is the increase in outward FDI, without neglecting the potential of the internal market. According to the theory proposed by Dunning, the statistics provided by UNCTAD suggest that brazilian FDI stock outward was bigger than the stock of inward FDI from 1980 to 1991. This fact goes against the traditional theory exposed, though we believe values were too low to show a trend. Thus, we chose to relativize this point. Brazilian FDI abroad, since that time, can demonstrate the potential of Brazilian companies to expand abroad. At present, we believe that Brazil is fully in phase 2 of the IDP, with clear signs of phase 3 and some evidences of evolution to phases 4 and 5. The country used the policy of import substitution, from 1929 to the late '80s, with the objective of attracting FDI to develop the manufacturing sector and address problems such dependence on foreign capital. The reforms of the 1990s attracted substantial FDI to the country. Apart from the privatization program, the economic stability provided greater confidence, in the long term, for the international investor. Regarding to outward FDI, since the 70 was carried out by publicly traded companies such as Petrobras, and also private companies, such as Odebrecht. Especially since the 2000s, the Brazilian economy is showing signs of entry into phase 3, and some signs of phases 4 and 5, even with the stock of NOI FDI does not helping in this perception. The graph 2 shows that both the stock of inward FDI, as the stock of outward FDI continues to rise, which shows inconsistency with the features outlined in Phase 3, which FDI inward back down. However, this can be explained by the high potential of the domestic market attraction, as well as Brazil be a complex and dynamic economy, where certain sectors are more advanced than others.

Graph 4 – Brazil: stocks inward and ourward, 1980-2010
Million of dollars



As signs that the country is moving toward stage 3 is the improve of technological capabilities and competition from national companies in various sectors of the economy, as reflected, for example, in the exponential growth of exports in 2000, the establishment overseas of one thousand of them, and the strategy of some Brazilian MNES that focus on international management of its assets. Began to increase the demand from consumers for quality products and services. The outward FDI of MNEs in Brazil takes place in countries that are less than or equal phases of IDP (and other), as in Latin America but also in developed countries like the United States, Portugal, England, among others. Since the 1990s, still, the economic stabilization arising since the Real Plan, which covered a new set of rules of conduct for the public and private sector, enabled economy Brazil to focus on structural problems, restructuring key sectors (telecommunications, energy, etc.), upgrade the education system, encourage programs for promoting entrepreneurship (SEBRAE) and improve the quality and competitiveness of the companies (ISO 9000). In other words, the govern focus is to make structural adjustments and correct the imperfections of the market. The Brazilian govern, for example, encourage outward FDI through institutions such as the BNDES (Banco Nacional de Desenvolvimento Econômico e Social).
It turned out, even through the Census of Foreign Capitals Central Bank of Brazil in 1995, 2000 and 2005 some evidence of phase 4 of the IDP, through the intra-industry trade.

4. FINAL REMARKS

The IDP theory argues that as countries become more industrialized or developed – with a parallel advance in their industrial and service sectors – their firms are likely to build up firm-specific advantages, and so are able to compete more effectively at the international level.
According to the IDP theory, the outward and inward FDI position of a country is systematically related to a country's level and structure of economic development. Along the IDP, outward FDI is expected to be undertaken only when a country has reached a certain minimum level of development, at which time ownership advantages may have evolved among firms in that country. The outward FDI pattern will therefore reflect the evolving nature of ownership advantages of domestic firms as well as changes in the advantages of the home economy vis-à-vis potential host economies.
Essentially, countries may use both inward and outward FDI to upgrade the competitiveness of their indigenous resources and capabilities to facilitate structural change, thereby promoting dynamic

comparative advantage. In both cases, foreign assets (resources, capabilities, access to markets, patents, trade marks, entrepreneurial skills and institutions) are bought, whether it be via market, resource, efficiency or strategic asset seeking FDI.

The IDP suggests that at low levels of economic development, both imports and inward FDI are likely to be the most favoured means of securing “created” assets. Exceptions may be capital-rich countries (e.g. the oil-rich States) that might have the liquid assets to acquire foreign firms. This is obviously one of the quickest ways to gain access to the “competitive advantage” of foreign firms; but unless it is to be a portfolio investment, the purchaser must have some other capabilities to manage the purchased firm effectively. In such cases, outward FDI is being used as a means of augmenting existing advantages.

Normally, however, in the early stages of the IDP, countries are likely to obtain created assets through inward FDI. First, these are directed to low/medium knowledge-intensive industries and/or resource-based sectors in which the host countries have or are developing a comparative advantage; later as countries move upwards along their IDPs, FDI is directed to higher technology-intensive sectors, and/or more efficiency-seeking FDI takes place. Over time, through a variety of spillover effects, inward FDI acts as a competitive spur to domestic firms. Eventually, the most efficient of these will start to penetrate foreign markets (through exports, FDI or contractual agreements).

Because of recent technological and communication advances and the pressures of globalization, this process is accelerating. Sometimes it is aided by governments, as in the Republic of Korea in the 1980s and 1990s, and Malaysia and China today.

The principle of comparative dynamic advantage suggests a continuing restructuring of economic activity as countries move upwards along their IDP. Both inward and outward FDI policies have a critical role to play in guiding or facilitating this process, as do other macroeconomic and micro-management policies. Many firms today engage in a combination of the two types of FDI (asset-exploiting and asset- augmenting). In their development policies, countries may also opt for both inward and outward FDI. Finally, the geography of inward and outward FDI may differ just as much as that of trade. Certain companies might be in a favourable position to exploit or gain new assets via outward FDI, while others might best advance their competitive/comparative advantage by encouraging inward FDI from a different group of countries.

The brazilian position in the IDP, in accordance with the methodology of Dunning, have the outward stock bigger than inward stock . We consider that by the low values on early years, as well as other ways of perceiving the stage of the IDP in which the country is, the phenomenon can be relativized. Another incongruity is that the Brazilian inward stock continues to rise, along with the outward stock by the year 2007. In contrast, for phase 2 the inward stock rise and outward stock remains negligible, and phase three there is a gradual reduction in the stock inward and outward stock increased. However, the factors that underlie our perception that Brazil is fully in phase 2 (in the latter part of the second phase, the rates of inward and outward FDI will begin to converge) and has signals of phase 3 and some signs of phases 4 and 5, are as follows: Brazil already has a attractive market to MNEs for decades and the policy replacing imports have been used a long time ago, as imposition of tariffs or nontariff barriers, among others. Already for some time that the inward FDI in Brazil is well targeted sectors intensive in natural resources. For example from the 2000s, the vast majority of Brazilian MNEs have a your own strategy, independently of government action. Therefore, there is a government FDI, as Petrobrás, but private companies are the basis of brazilian outward FDI. The govern aim to reduce market imperfections.

The technological capabilities of the country are increasingly oriented towards the production of innovative and standardized goods. Some Brazilian multinationals do business through products and services though cooperative trade between countries. The economic stability made consumers with better purchasing power and begin to demand products of higher quality. The wages of workers have begun not be a relevant comparative advantage in some sectors, and there is evidence that outward FDI are also oriented to countries that are in earlier stages of the IDP, especially in Latin America and Africa. Domestic companies are increasingly competing on equal terms with foreign MNEs, which are forced to improve their technology, management and marketing, and the domestic firms competitive advantages are increasingly on their ability to manage and coordinate geographically dispersed assets. The market size of the country was an important locational factor, but the liberalization policies of the 1990s make innovation and the ability to do economies of scale important factors to the attractiveness of the country. MNEs also have a wide variety of reasons to invest in Brazil, beyond the replacement of imports or obtain supplies of natural resources. The brazilian companies, rewards of ownership advantages, need less government action, and these are addressed, if necessary, to reduction of structural market imperfections or encourage local enterprises to invest abroad. Despite the speed and scale of the Brazilian internationalization process since 2004, there are some lacks when it comes to the sources of funding. Most Brazilian companies investing abroad indicate their own capital as the main source of funding. However, many of those that do not mention their own capital also do not mention other Brazilian sources. This suggests that access to funds from BNDES (the Brazilian Development Bank) or from domestic banks is still limited. But the lack of brazilian financing is not the only internal barrier to the internationalization of Brazilian companies. Many Brazilian companies also mention the lack of personnel with the necessary skills and the knowledge of potential markets.

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